

FR-14 Recommendation

Summary:

Recommendation: The OFR should do whatever it takes to gain access to the data collected by the Federal Reserve, the OCC and the FDIC to execute the Dodd Frank mandated stress tests. These data are collected on forms FR-14 (Y,Q and M) and DFAST-14.

Rationale: Section 154(c)(1)(D) of the Dodd-Frank Act requires OFR “to evaluate and report on stress tests or other stability-related evaluations of financial entities overseen by Council member agencies.” Our subcommittee feels this can only be done if the OFR has the underlying data that the other agencies are using. There are also other potential uses of these data that dovetail with the OFR’s mission.

Background:

Dodd Frank mandates that the primary supervisors of critical financial institutions undertake regular stress tests. Section 154(c)(1)(D) of the Dodd-Frank Act requires OFR “to evaluate and report on stress tests or other stability-related evaluations of financial entities overseen by Council member agencies.”

To this end it is essential that the OFR is able to access the data that are analyzed by the primary supervisors. Besides allowing the OFR to improve stress testing methodologies, these data have other independent potential uses that would assist the OFR in its overall mission. For example, the data could be used in analyzing counterparty risks, mapping network linkages, estimating cross-system leverage, assessing vulnerabilities in consumer credit and corporate lending, and understanding operational risks.

Visitors Recommendation

Summary:

Recommendation: The OFR needs to develop a way for outside scholars to collaborate with OFR staff and to undertake individual research projects that are of core importance to the OFR. The FRAC has identified a range of candidate scholars and research designs that comprehensively cover the type of visitors and collaborators that should be covered under this program. After designing the appropriate programs, the OFR should advertise their existence and develop the infrastructure to evaluate proposals promptly.

Rationale: Engaging with outsiders is a way for the OFR to bring in additional expertise to assist in the mission of the OFR. We envisage various types of researchers who might want to collaborate and suggested that the OFR develop programs to work with each of the different types of requests that might arise.

Background:

There is very high interest among academics in working on problems that are critical to the mission of the OFR. In many cases, the data that the OFR has are unique. Hence the OFR has the opportunity to attract a range of people to collaborate with or do individual research projects that will advance the OFR's mission. In many cases, the financial commitment from the OFR for these projects would be minimal and would allow the OFR to supplement its staff expertise with outstanding scholars. But for this to take place, the OFR needs a well-designed program in place to make it easy for visitors to apply for support. Decisions on offering support also need to be made promptly.

The OFR should study the process that the Census bureau uses in allowing researchers to access their data. That program is long-established and has had numerous participants. A variant of that program could be adapted for the OFR's needs.

In designing a program, we envision five types of requests that the OFR should be prepared to evaluate and respond to.

- First, it should be possible to accommodate a PhD student who wants to spend the summer starting a project at the OFR working full time and then continuing work over the fall on occasional visits. (Note PhD students often are not employees of a University so their time cannot be bought through an agreement with the University; they also may not have a green card.) The student may or may not need any financial support to do this.

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- Second, it should be possible for a PhD student who wants to spend the summer and much of the next academic year working on what will be their dissertation to do so. The student will require at least financial partial support, and so would need to be hired in some capacity.
- Third, it should be possible for a professor to come for a series of short visits to work on a specific project. In many of these cases, no salary support is needed, but reimbursement for travel expenses would be necessary. It is likely that these faculty members cannot spend an extended period in Washington DC (or New York), so the program must not require too much residency time.
- Fourth, a faculty member could want to take a leave from his/her position for a year and work at the OFR. They would need an appointment at the OFR in some capacity.
- Finally, it is possible that a professor might want to work on a theoretical project of interest to the OFR. This does not require any time in Washington to complete the project, nor does it require access to any OFR data. The professor would like salary support for the summer. The professor would also like to hire a PhD student at her university to work as a research assistant (on site at the university) and to buy a computer and some software to do some of the analysis. This kind of a team project should be possible.

A first step in getting this started would be to create a document that could be used to describe the steps (and restrictions) that would be involved for someone in each of these five scenarios to make a proposal to the OFR.

A second step would be to describe the process that the OFR would use in evaluating proposals.

Compensation Recommendation

Summary:

Recommendation: Section 152 of the Dodd Frank Act grants the OFR authority to set its salaries and includes the OFR in the group of agencies that must abide by compensation and benefit rules prescribed in the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The OFR should take all possible steps within the restrictions of government pay scale to assure that its compensation offers are competitive for researchers in finance.

Rationale: We investigated the OFR hiring process as it currently exists and also explored salaries available for other organizations which compete with the OFR for personnel. In doing so, we found that currently the OFR salary offers are not competitive. We also found out a bit about other government agencies structure their salary offers and include that information as background that might help the OFR going forward.

Background:

Our subcommittee spoke with the OFR staff regarding its recruiting process and experience in attempting to hire new PhDs with expertise in finance. The OFR follows the standard practices of interviewing candidates at the Allied Social Sciences Annual meeting and then inviting the most promising candidates to spend a day at the OFR. During the visit the candidate presents a seminar based on their dissertation research and meets with OFR staff. However, in cases when the OFR decides to extend an offer to its compensation package appears to be below the market level. Through discussions with former candidates and by reviewing publicly available information, we know that for a new PhD with no work experience, the typical salary offer would be below \$120,000. This is not a competitive level of pay.

As a benchmark, here are some representative salary offers that new Phds received this year; this sample purely reflects data was easily collected by members of the subcommittee by talking to students at our universities.

- This year, top 15 business schools were offering 12 month compensation packages of \$240,000 to \$250,000 per year.¹
- The Federal Reserve System puts together pay packages that are expected to average between \$190,000 and \$200,000 for the first three years of employment for new PhDs in

¹ These numbers are based on offers at the University of Texas Austin, the Kellogg School of Management, and Harvard Business School. The salary consists of a 9 month base salary and then an extra 2/9 supplement for the period before tenure.

finance. These deals involve a combination of a base salary (of perhaps \$160,000 to \$175,000) plus a signing bonus and a promised bonus for the first couple of years of employment.²

- Finally, private sector pay for people with a PhD in finance, but who choose to work at economic consulting firms appears to be paid roughly \$165,000 to \$190,000 sometimes with signing bonus of \$10,000 to \$30,000.³

It is obviously critical that the OFR find the best available talent to support its efforts. We do not expect the compensation package to mirror Wall Street or even the very best business schools. But it must have the ability to compete with other policy institutions and more typical businesses.

It is also important to recognize that the staff spends a non-trivial amount of time recruiting and if the compensation packages are uncompetitive not only is this time wasted, but the process can reduce morale.

To meet the Dodd Frank mandate on compensation arrangements, the OFR should explore the strategy used by the Federal Reserve (and other relevant parts of the government and private sector) to make its offers closer to market levels. It would be appropriate to create special classifications for finance PhDs so that they are on a different pay scale than economists. It would also be reasonable to create bonus pools that could be used at the start of a career to boost salaries. Absent steps like this, it is doubtful that the OFR will be able to attract the talent that it needs to fulfill its research mission.

² These numbers reflect practices at the Board of Governors and the Federal Reserve Bank of Chicago.

³ This quote comes from a partner of litigation consulting firm; the firm prefers to remain anonymous.